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In fiscal 1977 Genesco Inc. initiated a change in corporate direction under the leadership of a new chief executive. This annual report outlines the details of that change in direction, the financial results entailed, and the future scope and direction of the corporation.

1977 Annual Report
Genesco Inc.

Financial Highlights

Fiscal year ended July 31	**1977**	1976
Net sales	**$1,014,787,000**	$1,061,390,000
Operating income (loss):		
Ongoing operations	**5,146,000**	41,438,000
Operations to be divested	**(6,963,000)**	(187,000)
Provision for divestments and retail store closings	**(33,224,000)**	—0—
Income taxes	**45,287,000**	20,510,000
Nonconsolidated companies	**(262,000)**	(1,186,000)
Discontinued operations:		
Operating loss	**(11,857,000)**	(3,625,000)
Provision for future losses	**(43,336,000)**	—0—
Net earnings (loss)	**(135,783,000)**	15,930,000
Primary earnings (loss) per common share	**(11.12)**	1.00
Average common and common equivalent shares outstanding	**12,512,000**	12,593,000

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1977 Report to Stockholders

CLEVELAND PUBLIC LIBRARY
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John L. Hanigan
Chairman

In fiscal 1977 your company went through what can only be described as a traumatic year. Not only was its management changed but it was faced with a very difficult period in the markets in which it operated.

On joining the company in May, I started an immediate reevaluation of the businesses we were in that did not measure up to the returns that you should get on the capital employed and that showed no promise of reaching such a level of profitability in the foreseeable future. This reevaluation led to a policy decision to get out of women's and children's apparel manufacturing. As a whole these businesses were losing money, even though some were profitable. But the return on investment was not what it should have been in most of them and the forecast was that they would not meet our goals in the future. In addition, we went further and designated other operations for divestment that in our opinion will not produce adequate profits.

Some of the assets written off are noncash, such as the "goodwill" and tax loss carryforward items. It should be emphasized that the latter are not lost to us but remain to be utilized in the years ahead.

The net result of these financial changes is that our balance sheet more accurately depicts the situation of the company at year end. As the businesses that we are divesting are sold, cash will be generated to reduce debt. And since working capital will no longer be needed for the divested companies, it can be redirected to more profitable areas.

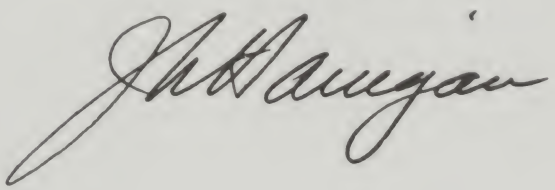
Knowing what our plans were and what our balance sheet would look like, we nevertheless were able to arrange a $130,000,000 revolving credit agreement with a consortium of 14 banks. Their support and that of the long-term lenders was essential to enable us to carry out our plans for the future.

So much for the past. The future of the company is in the growth and prosperity of three main areas: footwear, which was and still is the most important of our profit makers; men's clothing, which is also important and improving; and variety and specialty retailing, which is not now pulling its weight but should in the future.

Your company has able people in all of these areas and an able staff organization as well. I am confident that we will return to profitable operation in fiscal 1978.

I know that all of you are interested in when we will be sound enough financially and profitable enough to start paying dividends again. This is a question that I cannot answer, but I am afraid it will be quite a few years from now. I ask your support and that of all the people of Genesco so that we can make that time sooner rather than later.

I would like especially to thank Mr. William Blackie who returned to active business from retirement and who contributed greatly by his interim leadership of the company during a very trying period.



1977 Operations Review

During fiscal 1977, the management of Genesco conducted a comprehensive review of all of the company's operations. In conducting the review, management analysed each operation's strong points, weaknesses, market position, historical business trends, and other critical competitive factors. For manufacturing and wholesale divisions, each product line and factory was evaluated. In the case of retail operations, individual store locations were reviewed. In all cases the ultimate consideration was: "Does this operation have the potential to produce a 25% pretax return on assets employed?" Out of this review came the decision to restructure the company.

The first aspect of this restructuring was the decision to divest those operations which manufacture and distribute women's and children's apparel. Although some individual operations have been profitable, taken as a whole this segment of business has not performed acceptably. Lines C and F at right indicate the performance of this group of companies over the past five years. Furthermore, none of Genesco's operations in this area hold significant market positions, and this puts them at a competitive disadvantage. To overcome this disadvantage would require a disproportionate amount of capital and management time. After reviewing those operations, Genesco management decided that this capital and time could be better spent on developing other areas of the business.

Almost 20 years ago, Genesco began moving into all major areas of apparel manufacturing. Management's decision at the end of fiscal 1977 represents a major departure from the philosophy of "everything to wear." In the future, Genesco's main criteria for evaluating areas of operation will be the potential for a satisfactory return on investment.

In addition to the women's and children's area, the review indicated several other areas without adequate earnings potential, and these will also be divested. The performance of these other operations over the last five years is shown on lines B and E at right. It was also decided to close a number of footwear, apparel and variety store locations which failed to meet the same standard.

Finally, Genesco intends to sell Charles Jourdan, a French shoe manufacturer and retailer. Jourdan, although profitable, is the company's only remaining European operation. As such, the problems of time and distance involved in managing this company make it advantageous for Genesco to sell.

Genesco's ongoing operations are now concentrated in three areas: footwear, men's clothing, and apparel and variety retailing. In total these areas had net sales in fiscal 1977 of approximately $975 million. More importantly, as line D of the table at right indicates, these ongoing operations have been profitable over the last five years. The ongoing operations in each of these three areas are discussed in more detail on the following pages.

In order to achieve the performance goals which management has set, additional emphasis will be placed on two key areas: developing branded products and increasing retail penetration.

Successful brand names generally command higher margins and build greater customer loyalty. Genesco will be increasing expenditures for advertising and sales promotion for its existing brands. Areas where new brands could be introduced will also be considered.

The company's unbranded sales will continue to be an important portion of Genesco's total manufacturing volume. A number of the company's ongoing divisions have established themselves as significant resources for the major chains. But branded sales are planned to increase at a faster rate in order to gain a stronger position in the marketplace and establish a better balance with the unbranded sales.

Second, in the retailing operations, a number of new locations will be opened to increase Genesco's retail penetration. Those operations already performing at or above the acceptable standard for return on assets will receive first priority for expansion. Every new proposed location will be thoroughly researched and evaluated, and will be approved only if it shows potential to fulfill the required standard of profitability.

The review which began in fiscal 1977 did not end with the decision to divest certain operations. Every retail store, manufacturing plant, and staff department will be continuously reviewed to insure it is properly productive. And every area of our business will be expected to meet the established standards or demonstrate the potential to do so in a reasonable period of time. Only in this way can the company meet its responsibility to earn a fair profit.

1977 Operations Review

Net Sales

Net sales of the major business areas were as follows (in thousands):

		1977	1976	1975	1974	1973
	Apparel	**$ 548,085**	$ 597,518	$ 556,593	$ 587,034	$ 573,535
	Footwear	**337,093**	390,125	358,658	361,909	358,659
	Men's clothing	**210,992**	207,393	197,935	225,125	214,876
	Retail	**569,579**	567,540	543,870	543,621	526,405
	Footwear	**180,897**	183,853	176,592	169,916	166,236
	Specialty apparel	**232,966**	219,095	205,101	218,632	215,259
	General merchandise & variety	**155,716**	164,592	162,177	155,073	144,910
	Total operations	**1,117,664**	1,165,058	1,100,463	1,130,655	1,099,940
	Intercompany and nonconsolidated international sales	**(143,838)**	(175,037)	(167,587)	(171,613)	(141,215)
A	Total ongoing operations	**973,826**	990,021	932,876	959,042	958,725
B	Operations to be divested	**40,961**	71,369	81,922	97,730	127,911
	Consolidated net sales	**1,014,787**	1,061,390	1,014,798	1,056,772	1,086,636
C	Discontinued women's & children's operations	**172,074**	196,392	201,906	240,330	243,324
	Totals	**$1,186,861**	$1,257,782	$1,216,704	$1,297,102	$1,329,960

Operating Income (Loss)

Operating income (loss) of the major business areas was as follows (in thousands):

		1977	1976	1975	1974	1973
	Apparel	**$ (842)**	$27,669	$ 8,214	$19,958	$10,434
	Footwear	**2,605**	27,275	18,182	15,412	13,617
	Men's clothing	**(3,447)**	394	(9,968)	4,546	(3,183)
	Retail	**13,539**	20,752	8,501	18,034	19,133
	Footwear	**10,087**	12,167	10,957	13,149	17,361
	Specialty apparel	**1,565**	2,610	(2,483)	3,307	2,571
	General merchandise & variety	**1,887**	5,975	27	1,578	(799)
	Total operations	**12,697**	48,421	16,715	37,992	29,567
	Consolidating eliminations and nonallocated corporate expenses	**(7,551)**	(6,983)	(7,760)	(7,355)	(2,053)
D	Total ongoing operations	**5,146**	41,438	8,955	30,637	27,514
E	Operations to be divested	**(6,963)**	(187)	(3,276)	(240)	(3,201)
	Total operating income (loss)	**(1,817)**	41,251	5,679	30,397	24,313
F	Discontinued women's and children's operations	**(11,857)**	(7,250)	(9,359)	6,758	4,446
	Totals	**$ (13,674)**	$34,001	$ (3,680)	$37,155	$28,759

The results shown for each business area have been reduced by a charge representing its pro rata share of corporate financial and administrative expenses. This charge is made to individual operating divisions by applying a percentage generally approximating the prime interest rate to the operating division's average investment in accounts receivable, inventories and undepreciated fixed assets.

Footwear

An unusual number of internal and external factors combined with a weak footwear market to produce poor results for Genesco's footwear operations in fiscal 1977.
Ordinarily, the diversity and extent of Genesco's footwear operations help cushion declines in any particular market. When one is weak, other markets pick up the slack. In fiscal 1977, with only a handful of exceptions, the company's divisions experienced declines in sales and earnings across the board.

In marketing, sales suffered from styling and quality problems along with a major volume loss due to the decline in popularity of the "Mittens" construction shoes. A general weakness in retail volume plus a lack of new store openings until late in the year slowed footwear retail. And the decline in sales volume at wholesale and retail had a decided impact on footwear manufacturing operations.

The Canadian footwear operations continued their consistently profitable performance, but again this year fell under the control of the government's Anti-Inflation Board. As a result of "excess revenues" in fiscal 1976, Genesco's retail operations there were required to pass this "excess" back to the consumer in the form of price reductions. Needless to say, this affected earnings in fiscal 1977. There is no indication at the time of this writing that controls will be lifted in fiscal 1978.

Despite the results for fiscal 1977, Genesco's footwear operations are the backbone of the company's business and offer a unique opportunity for return on investment. First, these operations are well established and, in several cases, hold leading market positions. Both branded and private label business are well represented. Second, because these operations are vertically integrated, they offer the possibility for return at all levels: raw materials and components, manufacturing, marketing and retailing.

Genesco's footwear operations include such well known brand names as Johnston & Murphy, Jarman, Cedar Crest, Fortune, Wrangler Shoes for Jeans, Easy Street, Vogue, Charm Step and Cover Girl. Store chains include Johnston & Murphy, Jarman, Agnew-Surpass (Canada), Flagg Bros., Hardy, and Bell Bros. In addition, several divisions are significant footwear resources for the major chains.

Men's Clothing

Genesco's men's clothing operations fall into four general categories: tailored clothing, jeans, hosiery, and underwear and pajamas.

Tailored clothing includes Phoenix Clothes and Greif & Company. Both divisions produce branded and unbranded clothing, but in different price ranges and often for different customers. Two years ago, Greif was 100% unbranded. Under new leadership, that company successfully introduced a series of "living labels" — Lanvin, Donald Brooks, Chaps by Ralph Lauren, Guy Laroche, and Tom Weiskopf. These new labels have substantially increased Greif's sales and now account for some 60% of its total volume. Phoenix, with its Hardy Amies label complementing its Phoenix brand business, has consistently been an outstanding performer.

Genesco's jeans operations include both branded and unbranded divisions. Male® slacks and jeans is a high fashion brand sold to jeans stores and, to a growing extent, department stores. Haywood supplies unbranded jeans and pants to major chains, and is rapidly becoming a primary resource for this segment of the market. Harpeth Apparel is a contract jeans manufacturer, producing garments for other companies as well as Haywood and Male.

Ainsbrooke produces underwear for the major chains. Men's pajamas are marketed under the Pleetway name.

Genesco's three hosiery operations include Camp Industries, better men's branded hosiery; Baker-Cammack, unbranded men's hosiery; and Bacon, women's unbranded hosiery. Bacon discontinued its pantyhose business in May, and will continue to operate its profitable casual hosiery business as Genesco's only ongoing clothing operation producing goods for women. All three companies have similar manufacturing processes, and they have been coordinated under a single executive.

Apparel & Variety

Genesco has 99 men's specialty retail stores. During fiscal 1977, the entire men's retailing industry was weak, and Genesco's operations were no exception.

During this past spring and summer, a complete review of all locations was undertaken to evaluate performance and potential. After the review was completed, management decided to close a number of unproductive locations, and this will be completed in calendar 1978. It was decided to sell the three-store Burkhardt-Davidson's in Cleveland outright.

Footwear
Sales and Operating Income
(in thousands)

	Sales	Operating Income
1977	$517,990	$12,692
1976	573,978	39,442
1975	535,250	29,139
1974	531,825	28,561
1973	524,895	30,978

Men's Clothing
Sales and Operating Income (loss)
(in thousands)

	Sales	Operating Income
1977	$210,992	$(3,447)
1976	207,393	394
1975	197,935	(9,968)
1974	225,125	4,546
1973	214,876	(3,183)

Apparel & Variety Retailing
Sales and Operating Income (loss)
(in thousands)

	Sales	Operating Income
1977	$388,682	$ 3,452
1976	383,687	8,585
1975	367,278	(2,456)
1974	373,705	4,885
1973	360,169	1,772

In addition to closing locations, other activity is underway to improve the results of these operations. First, plans are being drawn up for several new stores in more favorable locations. Second, in order to reduce overhead, the men's specialty stores will operate more like independent companies. Their company presidents will set the fashion direction of the stores, making many of the buying decisions rather than having a staff of buyers.

Roos/Atkins, which is based on the West Coast and carries both men's and women's apparel, is succeeding in its efforts to change from a highly promotional reputation to one of consistent quality, value and fashion. The store's progress is on course, with expenses held in line. Two new stores are planned to open during fiscal 1978.

In response to store renovation and new fashion leadership, Bonwit Teller enjoyed healthy sales increases in fiscal 1977, which are continuing into fiscal 1978. The additional costs necessitated in this process affected earnings, and a new executive vice president of administration has been brought in to bring expenses into proper relationship to sales volume.

Other women's specialty stores performed well in fiscal 1978, and continued expansion is planned for Plymouth Shops. In August of 1977, Harold's, a single store in Minneapolis, was sold at a premium. Harold's had been operated by Cincinnati based Gidding-Jenny and had been difficult to manage or merchandise because of the distance.

During the year the decision was made to reclassify S. H. Kress & Company as a "continuing" operation. It had been treated as "discontinued" since 1973. As a result its sales and earnings have been brought back into Genesco's income statement.

Although still profitable, Kress earnings were adversely affected by the devaluation of the Mexican peso in September of 1976. Many of Kress' most profitable stores are near the Mexican border. This lost volume has slowly been regained, and other stores have been performing better than a year ago.

As of the first of July, V. J. Elmore, a chain of 115 variety stores in the Southeast, was merged with Kress' 162 stores. The stores will continue to operate under the Elmore name, but the administration, merchandising and distribution have been taken over by Kress. This merger is expected to eliminate approximately $1 million in overhead.

Independent Accountants' Report

Price Waterhouse & Co.

THIRD NATIONAL BANK BUILDING
NASHVILLE TENNESSEE 37219
615-244-5050

August 31, 1977

To the Board of Directors and
Stockholders of Genesco Inc.

We have examined the consolidated balance sheet of Genesco Inc. and its subsidiaries as of July 31, 1977, and the related consolidated statements of earnings, of stockholders' equity, of additional paid-in capital, of retained earnings (deficit) and of changes in financial position for the year. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Genesco Inc. for the year ended July 31, 1976 were examined by other auditors whose report dated August 23, 1976 (August 31, 1977 as to the effect of the reclassifications described in the summary of accounting policies) expressed an unqualified opinion on those statements.

The accounting policy for costs related to retail store closings was changed in 1977, as described in the summary of accounting policies and accompanying note to financial statements on operations to be divested and retail store closings.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Genesco Inc. and its consolidated subsidiaries at July 31, 1977, and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles which, except for the change, with which we concur, referred to in the preceding paragraph have been applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Consolidated Earnings Statement

Year ended July 31	1977	1976
Net sales	**$1,014,787,000**	$1,061,390,000
Cost of sales	**693,085,000**	686,394,000
Gross margin	**321,702,000**	374,996,000
Selling, general and administrative expense	**304,500,000**	316,132,000
Interest expense	**18,646,000**	17,787,000
Other income (loss)	**(373,000)**	174,000
Operating income (loss):		
Ongoing operations	**5,146,000**	41,438,000
Operations to be divested	**(6,963,000)**	(187,000)
Total operating income (loss)	**(1,817,000)**	41,251,000
Provision for divestments and retail store closings	**(33,224,000)**	—0—
Pretax earnings (loss)	**(35,041,000)**	41,251,000
Income taxes	**45,287,000**	20,510,000
Nonconsolidated companies	**(262,000)**	(1,186,000)
Earnings (loss) before discontinued operations	**(80,590,000)**	19,555,000
Discontinued operations:		
Operating loss	**(11,857,000)**	(3,625,000)
Provision for future losses	**(43,336,000)**	—0—
Net earnings (loss)	**$ (135,783,000)**	$ 15,930,000
Earnings (loss) per common share:		
Primary:		
Before discontinued operations	**$ (6.71)**	$1.28
Net earnings (loss)	**$(11.12)**	$1.00
Fully diluted:		
Before discontinued operations	**$ (6.71)**	$1.19
Net earnings (loss)	**$(11.12)**	$ .92

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these Financial Statements.

Consolidated Balance Sheet

July 31	1977	1976
Assets		
CURRENT ASSETS:		
Cash	**$ 51,435,000**	$ 15,601,000
Receivables	**23,106,000**	28,730,000
Inventories	**199,031,000**	243,663,000
Prepaid expenses	**2,533,000**	636,000
Future tax benefits	**—0—**	16,000,000
Current assets of operations being divested	**51,561,000**	—0—
Total Current Assets	**327,666,000**	304,630,000
Investments and long-term receivables	**10,021,000**	17,291,000
Future tax benefits	**—0—**	21,984,000
Plant, equipment and capitalized lease rights	**101,169,000**	131,516,000
Deferred note expense	**1,765,000**	2,103,000
Investment in excess of equity	**4,362,000**	12,121,000
Fixed assets of operations being divested	**11,930,000**	—0—
Total Assets	**$456,913,000**	$489,645,000
Liabilities and Stockholders' Equity	**1977**	1976
CURRENT LIABILITIES:		
Notes payable	**$ 81,450,000**	$ —0—
Current payments on long-term debt	**8,596,000**	9,979,000
Current payments on capitalized lease obligations	**8,793,000**	9,355,000
Accounts payable and accrued liabilities	**76,409,000**	89,490,000
Provision for operations being divested	**37,078,000**	2,440,000
Total Current Liabilities	**212,326,000**	111,264,000
Long-term debt	**97,827,000**	106,376,000
Capitalized lease obligations	**45,788,000**	47,756,000
Provision for operations being divested	**27,519,000**	13,378,000
Deferred credits to income	**4,803,000**	7,020,000
Stockholders' equity	**68,650,000**	203,851,000
Total Liabilities and Stockholders' Equity	**$456,913,000**	$489,645,000

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these Financial Statements.

Consolidated Stockholders' Equity

Year ended July 31	1977	1976
$4.50 Cumulative Convertible Preferred	**$ 1,696,000**	$ 1,795,000
Subordinated Cumulative Convertible Preference		
$4.25 Series A	**60,000**	60,000
$6.00 Series B	**12,114,000**	12,114,000
$6.00 Series C	**12,565,000**	12,565,000
Subordinated Serial Preferred (Cumulative)		
$2.30 Series 1	**3,644,000**	3,681,000
$3.06 Series 2	**8,437,000**	8,107,000
$4.75 Series 3	**8,006,000**	8,006,000
$4.75 Series 4	**6,565,000**	6,565,000
$4.75 Series 5	**9,847,000**	9,847,000
Subordinated Cumulative Preferred	**3,000**	3,000
Employees' Subordinated Convertible Preferred	**38,752,000**	40,178,000
Total preferred stock	**101,689,000**	102,921,000
Common stock	**13,030,000**	12,982,000
Additional paid-in capital	**59,588,000**	58,542,000
Retained earnings (deficit)	**(57,583,000)**	78,263,000
Treasury stock, at cost	**(28,678,000)**	(28,676,000)
Employee incentive stock purchase accounts	**(19,396,000)**	(20,181,000)
Total Stockholders' Equity	**$ 68,650,000**	$203,851,000

Consolidated Additional Paid-In Capital

Year ended July 31	1977	1976
Balance at beginning of year	**$58,542,000**	$58,504,000
Expenses relating to capital stock issuances	**(39,000)**	(66,000)
Conversion of preferred stock	**1,380,000**	400,000
Increase in liquidating value of preferred stocks	**(295,000)**	(296,000)
Balance at End of Year	**$59,588,000**	$58,542,000

Consolidated Retained Earnings (Deficit)

Year ended July 31	1977	1976
Balance at beginning of year	**$ 78,263,000**	$62,418,000
Net earnings (loss)	**(135,783,000)**	15,930,000
Preferred dividends paid	**(61,000)**	(85,000)
Redemption of preferred stock	**(2,000)**	—0—
Balance at End of Year	**$(57,583,000)**	$78,263,000

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these Financial Statements.

Consolidated Changes in Financial Position

Year ended July 31	1977	1976
Sources of Working Capital		
Earnings (loss) before discontinued operations	**$(80,590,000)**	$ 19,555,000
Utilization of future tax benefits	**—0—**	15,663,000
Depreciation and amortization	**15,577,000**	16,084,000
Equity in nonconsolidated companies	**(2,060,000)**	(649,000)
Write-off of noncurrent future tax benefits	**25,645,000**	—0—
Write-off of excess of cost over equity	**4,043,000**	—0—
Write-down of fixed assets of companies to be divested	**4,921,000**	—0—
Write-off of deferred credits to income	**(1,277,000)**	—0—
Increase in noncurrent provision for operations being divested	**8,385,000**	—0—
Other charges to earnings not requiring funds	**3,133,000**	289,000
Working capital provided by (used by) operations before discontinued operations	**(22,223,000)**	50,942,000
Discontinued operations:		
Net operating loss	**(11,857,000)**	(3,625,000)
Provision for future losses	**(43,336,000)**	—0—
Income tax benefit	**—0—**	(3,625,000)
Depreciation and amortization	**2,268,000**	2,599,000
Write-off of excess of cost over equity	**3,267,000**	—0—
Write-down of fixed assets	**9,901,000**	—0—
Write-off of deferred credits to income	**(1,554,000)**	—0—
Increase in noncurrent provision for operations being divested	**9,025,000**	—0—
Other credits to earnings not requiring funds	**(33,000)**	(33,000)
Working capital used by discontinued operations	**(32,319,000)**	(4,684,000)
Working capital provided by (used by) operations	**(54,542,000)**	46,258,000
Long-term debt issued	**—0—**	70,000,000
Plant and equipment sales	**2,859,000**	5,337,000
Additions to capitalized lease obligations	**7,711,000**	4,396,000
Increase in current future tax benefits	**—0—**	4,500,000
Other changes in investments and long-term receivables	**2,933,000**	(563,000)
Other sources (uses) of working capital	**2,134,000**	(1,229,000)
Total	**$(38,905,000)**	$128,699,000

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these Financial Statements.

Uses of Working Capital	**1977**	1976
Preferred dividends paid	**$ 61,000**	$ 85,000
Redemptions of preferred stock	**100,000**	100,000
Long-term debt paid or charged against working capital	**8,602,000**	59,982,000
Reduction in capitalized lease obligations	**9,678,000**	10,759,000
Reserve items affecting working capital	**3,289,000**	1,452,000
Additions to plant, equipment and capitalized lease rights	**17,391,000**	7,948,000
Total	**39,121,000**	80,326,000
Increase (decrease) in working capital	**$(78,026,000)**	$ 48,373,000

Increase (Decrease) in Components of Working Capital	**1977**	1976
Cash	**$ 35,834,000**	$ 1,124,000
Receivables	**(5,624,000)**	2,186,000
Inventories	**(44,632,000)**	11,650,000
Prepaid expenses	**1,897,000**	(41,000)
Future tax benefits	**(16,000,000)**	4,500,000
Current assets of operations being divested	**51,561,000**	—0—
Total current assets	**23,036,000**	19,419,000
Notes payable	**81,450,000**	—0—
Current payments on long-term debt	**(1,383,000)**	(2,632,000)
Current payments on capitalized lease obligations	**(562,000)**	(904,000)
Accounts payable and accrued liabilities	**(13,081,000)**	(23,920,000)
Provision for operations being divested	**34,638,000**	(1,498,000)
Total current liabilities	**101,062,000**	(28,954,000)
Increase (decrease) in components of working capital	**$(78,026,000)**	$ 48,373,000

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of these Financial Statements.

Summary of Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the company and all domestic and Canadian subsidiaries except Genesco Financial Corporation. Nonconsolidated subsidiaries are carried at cost adjusted for undistributed earnings or losses since acquisition. The company's equity in income or losses of these subsidiaries is included in the consolidated earnings statement after provision for income taxes where appropriate.

The income before taxes of Genesco Financial Corporation is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes. The combined results of all other nonconsolidated subsidiaries are included as a single item in the consolidated earnings statement.

Inventories

Inventories are stated at the lower of approximate average cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, Equipment and Capitalized Lease Rights

Plant, equipment and capitalized lease rights are depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight-line method.

Amortization of Intangibles

The excess of cost over equity of purchased companies reflected in the consolidated financial statements is being amortized over a forty year period. Gains from the sale and leaseback of plant and equipment are being amortized over the lives of the respective leases.

Retirement Plans

Substantially all of the company's employees are covered by pension plans. The company funds pension costs accrued as determined by its independent actuaries.

Earnings per Common Share

Primary earnings per share are computed by dividing net earnings (loss) after deducting preferred dividend requirements by average common shares and common share equivalents outstanding. In the computation of fully diluted earnings per common share, earnings and average common shares are appropriately adjusted for outstanding dilutive securities.

Foreign Currency Translation

Current assets (excluding inventories) and liabilities of foreign subsidiaries are translated into U. S. dollars at exchange rates in effect at the balance sheet date. Inventories and noncurrent assets are translated at historical exchange rates. Income, costs and expenses are translated at average rates during the year except that historical rates are used to translate depreciation and cost of sales. Aggregate exchange losses for fiscal 1977 amounted to $1,154,000 compared to a gain of $1,173,000 in fiscal 1976.

Financial Statement Reclassifications

In 1973 the company decided to restructure and sell its S. H. Kress variety store chain. At that time, the company began accounting for Kress as a discontinued operation. Since efforts to sell the restructured chain were not successful, the company resumed accounting for Kress as a continuing operation as of May 1, 1977. Financial statements for periods prior to May 1, 1977 have been reclassified. Net sales of Kress for fiscal 1976 were $122,683,000. The reclassification had no effect on pretax earnings (loss) for any periods.

The consolidated earnings statement for fiscal 1976 has been reclassified to give effect to a decision to divest a segment of the company's operations. Net earnings for fiscal 1976 were not affected by the reclassification. See "Operations to be Divested and Retail Store Closings" on page 13.

Accounting Change

In July 1977 the company changed its accounting policy for costs related to retail store closings by adopting a policy which is more commonly used by retail companies. Such costs are now being accrued when the decision to close a store is made whereas in prior years such costs were expensed as they were incurred. The cumulative effect of the accounting change at the beginning of fiscal 1977 was immaterial. The effect of the change on results of operations for fiscal 1977 was a charge of $12,390,000 ($.99 per share).

Operations to be Divested and Retail Store Closings

On August 31, 1977, the Board of Directors approved a plan for divestment of the company's sixteen operating divisions which make up its Women's and Children's apparel segment of the business and of six divisions in other areas of its business. The plan contemplates sale of the majority of the divisions; however, some have been identified to be phased out if not sold as ongoing businesses. The Board also approved a change in accounting policy for costs arising from retail store closings.

The total provision required to cover the costs expected to be incurred in carrying out the plan is made up of individual provisions based on a specific plan for each of the twenty-two operating divisions slated for divestment. The individual provisions range from $100,000 to $8,000,000. Management believes the total provision is reasonable and actual costs incurred in carrying out the plan should not be significantly different from amounts provided.

All of the action called for in the plan is expected to be completed during fiscal 1978. However, there are certain long-term commitments which are expected to continue into future periods for which the provisions are classified as long-term liabilities in the consolidated balance sheet.

The total provision for divestments and retail store closings of $76,560,000 includes:

	Provision for Divestments		Provision for Retail Store Closings	Total
	Women's and Children's	Other		
Write-off of investment in excess of equity	$ 3,267,000	$ 4,043,000	$ —0—	$ 7,310,000
Provision for future losses	30,736,000	12,356,000	6,819,000	49,911,000
Provision for disposal of assets	9,333,000	4,435,000	5,571,000	19,339,000
Total	$43,336,000	$20,834,000	$12,390,000	$76,560,000

The operating results of the Women's and Children's segment, which have been classified separately in the consolidated earnings statement as discontinued operations, are shown below:

	1977	1976
Sales	**$193,953,000**	$225,917,000
Less intercompany	**21,879,000**	29,525,000
Net sales	**172,074,000**	196,392,000
Cost of sales and expenses	**183,931,000**	203,642,000
Pretax loss	**(11,857,000)**	(7,250,000)
Income tax benefit	**—0—**	3,625,000
Net Loss	**$(11,857,000)**	$ (3,625,000)

No reduction for estimated tax benefits has been made in 1977 since the realization of such benefits depends on the future profitability of the company.

Operations to be Divested and Retail Store Closings continued

At July 31, 1976 the balance in the provision for operations being divested account was applicable to lease obligations of retail stores closed as a result of a 1973 program to restructure the Kress variety store chain and other retail operations. A summary of the activity in these accounts, including the provision made in the current year for divestments and retail store closings, is as follows:

	1977	1976
Balance at beginning of year	**$15,818,000**	$16,711,000
Reclassification from fixed assets held for resale	**—0—**	1,342,000
Charges for costs incurred	**(3,963,000)**	(2,235,000)
Balance applicable to 1973 program	**11,855,000**	15,818,000
Provision for divestments and retail store closings	**52,742,000**	—0—
Balance at end of year	**$64,597,000**	$15,818,000

A summary of accounts in the consolidated balance sheet at July 31, 1977 which were affected by the $76,560,000 is as follows:

Current assets of operations being divested	$ (4,517,000)
Plant, equipment and capitalized lease rights	(4,921,000)
Fixed assets of operations being divested	(9,901,000)
Investment in excess of equity	(7,310,000)
Provision for operations being divested	(52,742,000)
Deferred credits to income	2,831,000
Total	$(76,560,000)

Receivables

Genesco sells most of its accounts receivable to Genesco Financial Corporation (GFC) at the outstanding balance less a 10% reserve for uncollectible accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC and other financial institutions.

	1977	1976
Trade accounts receivable	**$123,775,000**	$ 167,402,000
Miscellaneous receivables	**2,912,000**	1,691,000
Total receivables	**126,687,000**	169,093,000
Allowance for bad debts	**(4,532,000)**	(6,761,000)
Allowance for cash discounts and returns	**(644,000)**	(2,482,000)
Net receivables before financing	**121,511,000**	159,850,000
Sold to GFC	**(98,405,000)**	(131,120,000)
Net receivables	**$ 23,106,000**	$ 28,730,000

Inventories

	1977	1976
Raw materials	**$ 33,787,000**	$ 45,421,000
Work in process	**23,014,000**	27,366,000
Finished goods	**36,235,000**	55,077,000
Retail merchandise	**105,995,000**	115,799,000
Total inventories	**$199,031,000**	$243,663,000

Current Assets of Operations Being Divested

Current assets at July 31, 1977 of operations being divested are shown below. In the July 31, 1976 balance sheet, comparable amounts are included in each respective caption.

	1977
Accounts receivable, net of allowance for bad debts and cash discounts	**$ 30,531,000**
Sold to GFC	**(24,178,000)**
Net accounts receivable	**6,353,000**
Inventories	**45,208,000**
Total current assets of operations being divested	**$ 51,561,000**

Investments

	1977	1976
Equity in Genesco Financial Corporation (GFC)	**$25,791,000**	$23,469,000
Less advance by GFC to Trustee of Genesco employee incentive stock plans	**16,000,000**	11,000,000
Net equity in GFC	**9,791,000**	12,469,000
Investments and advances:		
Nonconsolidated subsidiaries	**(1,426,000)**	2,885,000
Other investments and long-term receivables	**1,656,000**	1,937,000
Totals	**$10,021,000**	$17,291,000

Investments in nonconsolidated subsidiaries includes an investment of $18,946,000 in Charles Jourdan and affiliated companies, manufacturers and retailers of women's fashion footwear based in France. The company has decided to sell this operation. Net proceeds from the sale will be used to pay certain obligations of nonconsolidated subsidiaries with the remaining proceeds being used to prepay short-term indebtedness of the company under its revolving credit agreement. See "Short-Term Borrowing Arrangements" on page 16.

The condensed consolidated balance sheet of Genesco Financial Corporation and Subsidiary at July 31, 1977 and 1976 follows:

Assets	1977	1976
Cash	**$ 15,816,000**	$ 1,019,000
Accounts receivable purchased from Genesco less contract reserve withheld	**122,583,000**	131,120,000
Notes receivable—Trustee of Genesco employee incentive stock plans	**16,000,000**	11,000,000
Notes receivable—other	**397,000**	583,000
Prepaid interest	**291,000**	559,000
Investments and other assets	**—0—**	350,000
Deferred long-term note expense	**489,000**	300,000
Total Assets	**$155,576,000**	$144,931,000

Liabilities and Stockholder's Equity	1977	1976
Notes payable to banks	**$ 47,750,000**	$ 69,950,000
Accrued liabilities	**2,035,000**	1,512,000
Long-term debt	**80,000,000**	50,000,000
Stockholder's equity	**25,791,000**	23,469,000
Total Liabilities and Stockholder's Equity	**$155,576,000**	$144,931,000

Plant, Equipment and Capitalized Lease Rights

	1977	1976
Plant and equipment:		
Land	**$ 1,125,000**	$ 1,563,000
Buildings and building equipment	**7,392,000**	9,523,000
Machinery, furniture and fixtures	**71,725,000**	100,606,000
Construction in process	**1,883,000**	1,046,000
Improvements to leased property	**46,315,000**	52,163,000
Capitalized lease rights:		
Land	**2,470,000**	4,020,000
Buildings	**46,656,000**	57,078,000
Machinery, furniture and fixtures	**51,942,000**	53,580,000
Total plant, equipment and capitalized lease rights	**229,508,000**	279,579,000
Accumulated depreciation and amortization:		
Plant and equipment	**(87,159,000)**	(106,373,000)
Capitalized lease rights	**(41,180,000)**	(41,690,000)
Totals	**$101,169,000**	$ 131,516,000

Fixed Assets of Operations Being Divested

Fixed assets at July 31, 1977 of operations being divested are shown below. In the July 31, 1976 balance sheet, comparable amounts are included in plant, equipment and capitalized lease rights.

	1977
Plant and equipment:	
Land	**$ 237,000**
Buildings and building equipment	**1,679,000**
Machinery, furniture and fixtures	**24,980,000**
Construction in process	**15,000**
Improvements to leased property	**5,596,000**
Capitalized lease rights:	
Land	**1,551,000**
Buildings	**13,399,000**
Machinery, furniture and fixtures	**3,765,000**
Total fixed assets of operations being divested	**51,222,000**
Accumulated depreciation and amortization:	
Plant and equipment	**(34,059,000)**
Capitalized lease rights	**(5,233,000)**
Total	**$ 11,930,000**

Short-Term Borrowing Arrangements

At July 31, 1977, bank credit lines of $204,950,000 with 34 commercial banks were available to either Genesco and/or Genesco Financial Corporation (GFC). Of this amount $171,950,000 was with 28 U.S. banks, $18,000,000 was with 4 Canadian banks and $15,000,000 with 2 European banks. The lines could be withdrawn at any time at the banks' option. Borrowings were usually for ninety day periods and were at the U.S. and Canadian banks' prime rate effective on the date the loans were made. Arrangements varied, but most provided that the company would endeavor to maintain collected funds on deposit in each bank which, over a calendar year, averaged 10% of the credit line plus 10% of average borrowings under the line. European bank rates were based on the Eurodollar interbank rate. No minimum deposit was required at any time. At July 31, 1977, Genesco and GFC had short-term loans of $81,450,000 and $47,750,000 respectively, outstanding at weighted average interest rates of 6.74% and 6.73%, respectively. During the year, borrowings by Genesco and GFC averaged $102,029,000 at a weighted average interest rate of 6.72%. The maximum borrowing at any month end during fiscal 1977 was $134,750,000 and at that time cash balances were $27,048,000. Unused lines of credit amounted to $75,750,000 at July 31, 1977.

On August 4, 1977, Genesco and GFC entered into revolving credit agreements expiring August 1, 1978 which replaced the borrowing arrangements referred to above except for a $10 million line of credit with a European bank. Under the revolving credit agreements, 14 banks have committed to make available to Genesco and GFC loans aggregating $130,000,000. Interest on such loans is payable quarterly at ½ of 1% above the Corporate Base Rate effective at The First National Bank of Chicago. Genesco and GFC have agreed to pay a commitment fee of ½ of 1% per annum on the daily unused portion of the banks' commitment. Compensating balance arrangements similar to those referred to above are also applicable to the revolving credit agreements.

The company's revolving credit agreement requires mandatory prepayments on borrowings in an amount equal to 100% of the net cash proceeds from any sales of assets, liquidations or other dispositions of operations as a result of the company's decision to divest itself of certain of its operations. The banks' commitment under the revolving credit agreement will be reduced by the amount of any such prepayments. See "Operations to be Divested and Retail Store Closings" on page 13.

The revolving credit agreement requires the company to maintain working capital of at least $100,000,000, a current ratio of not less than 1.5 to 1 and Tangible Net Worth of at least $50,000,000. At July 31, 1977 all of these requirements were met.

Long-Term Debt

	1977	1976
4.75% convertible subordinated note due 1982 with annual payments of $25,000; convertible into common stock at $24.86 per share	**$ 375,000**	$ 400,000
4.875% obligation due 1977	**—0—**	1,238,000
5.00% notes due 1984 with annual payments of $2,000,000	**26,000,000**	28,000,000
5.25% notes due 1981 with annual payments of $938,000	**7,803,000**	8,742,000
10.375% senior sinking fund notes due December 1984 with annual payments of $4,900,000	**65,100,000**	70,000,000
6.50% convertible subordinated debentures (Series A) due 1987; convertible into common stock at $41.67 per share	**1,172,000**	1,172,000
6.50% convertible subordinated debentures (Series B) due 1987; convertible into common stock at $45.45 per share	**4,244,000**	4,244,000
Notes payable incurred by companies prior to acquisition due in varying amounts to 1984 at various interest rates from 4% to 8%	**2,005,000**	2,889,000
Total long-term debt	**106,699,000**	116,685,000
Unamortized debt discount	**(276,000)**	(330,000)
Total long-term debt and unamortized debt discount	**106,423,000**	116,355,000
Current portion	**(8,596,000)**	(9,979,000)
Totals	**$ 97,827,000**	$106,376,000

The company guarantees all payments on long-term convertible debentures of $12,383,000 of Genesco World Apparel, Ltd., a nonconsolidated foreign finance subsidiary. The guarantee is subordinated to the prior payment in full of all present and future senior indebtedness.

Long-Term Debt continued

Amendments to certain of the company's loan agreements reduced the percentage of Consolidated Net Current Assets to Consolidated Funded Indebtedness the company is required to maintain from 150% to 100% through July 30, 1978, to 110% through July 30, 1979 and to 130% through July 30, 1980. At July 31, 1977 the company's Consolidated Net Current Assets were 125% of Consolidated Funded Indebtedness.

See "Stockholders' Equity—Restrictions on Dividends and Redemptions of Capital Stock" on page 19.

Capitalized Lease Obligations

Future minimum lease payments under leases capitalized at July 31, 1977, together with the present value of the minimum lease payments, follow:

Year ending July 31:	
1978	$ 13,350,000
1979	12,054,000
1980	9,096,000
1981	7,587,000
1982	6,448,000
Later years	34,914,000
Total minimum payments	83,449,000
Amount representing interest	(28,868,000)
Present value of minimum payments	54,581,000
Current portion	(8,793,000)
Total	$ 45,788,000

Stockholders' Equity

Distinguishing characteristics of preferred stock

	Shares Authorized	Shares Issued at July 31 1977	Shares Issued at July 31 1976	Per Share Stated and Liquidation Value (1)	Per Share Redemption Price (1)	Common Convertible Ratio	No. of Votes
$4.50 Cumulative Convertible Preferred	82,368	16,955	17,953	$100.00	$102.50	3.75	—
Subordinated Cumulative Convertible Preference							
$4.25 Series A	68,943	600	600	100.00	100.00	—	3
$6.00 Series B	161,981	121,144	121,144	100.00	100.00	2.40(2)	2
$6.00 Series C	269,291	125,652	125,647	100.00	101.00	2.20(2)	2
Subordinated Serial Preferred (Cumulative)							
$2.30 Series 1	131,826	89,319	89,337	40.80	40.80	.83	1
$3.06 Series 2	395,626	165,436	165,436	51.00	51.00	—	1
$4.75 Series 3	105,875	80,058	80,058	100.00	102.00	2.11	2
$4.75 Series 4	103,000	65,648	65,648	100.00	104.00	1.52	1
$4.75 Series 5	122,500	98,474	98,474	100.00	102.00	1.61	1
Subordinated Cumulative Preferred	5,000,000	105	105	30.00	30.00	—	1
Employees' Subordinated Convertible Preferred	5,000,000	1,291,726	1,339,278	30.00	—	1.00(3)	1

(1) Before adding effect of dividends in arrears.
(2) Also exchangable for $100 principal amount of 6.50% Convertible Subordinated Debentures. At July 31, 1977 such exchanges were prohibited. See "Restrictions on Dividends and Redemptions of Capital Stock" on page 19.
(3) Also convertible into one share of subordinated cumulative preferred stock.

Cumulative Convertible Preferred Stock:

The company is required to redeem annually 998 shares of cumulative convertible preferred stock at $100 per share.

Subordinated Cumulative Convertible Preference Stock:

The company is required to offer to redeem on December 31, 1977 and June 30, 1978, respectively, and each December 31 and June 30 thereafter, pro rata from each holder of Series B and Series C preference stock, 5% of the shares of such stock issued by the company. The company may, at its option and on a cumulative basis, credit against such redemption shares which have been (1) converted into common stock or (2) purchased or otherwise redeemed and not previously credited against such redemptions. At July 31, 1977, sufficient shares had been converted, purchased or otherwise redeemed to satisfy the redemption requirements until 1979 and 1983, respectively.

Subordinated Serial Preferred Stock:

Provisions of the Series 2 preferred stock require the company to place approximately $2,500,000 in a sinking fund on or before each January 1 of calendar years 1976-1978, for redemption during such calendar year of 20% of the shares of Series 2 stock originally issued. Provisions of the Series 5 preferred stock require the company to offer, during each November of 1975-1978, to redeem on each succeeding December 31, 20% of the shares (approximately $2,500,000) of Series 5 stock originally issued. See "Restrictions on Dividends and Redemptions of Capital Stock" below.

Common Stock:

At July 31, 1977 there were 20,000,000 common shares ($1 par value) authorized and 13,030,145 issued compared to 12,982,576 issued at July 31, 1976. Common shares reserved at July 31, 1977 for conversion of senior securities and for employee stock plans amounted to 2,580,355 and 807,924, respectively.

Restrictions on dividends and redemptions of capital stock

Payment of preferred dividends was suspended by the Board of Directors in March 1975. The Tennessee General Corporation Act prohibits the payment of dividends by a corporation when it has no surplus as defined by the Act. The company does not currently have any such surplus.

The company is also prohibited by its revolving credit agreement from paying dividends on and redeeming shares of any class of stock except preferred stock in aggregate annual amounts not exceeding $200,000.

The company is currently restricted by certain of its long-term debt instruments from paying dividends on and redeeming shares of any class of stock, except fixed dividends on and mandatory redemptions of shares of cumulative convertible preferred stock in aggregate annual amounts not exceeding $200,000. The most stringent of such restrictions at this time will not permit dividends or redemptions unless immediately thereafter Consolidated Net Tangible Assets are at least 275% of Consolidated Funded Indebtedness. At July 31, 1977, the company was $94,545,000 short of this requirement. In addition, preferred dividends of $8,367,000 and mandatory redemptions of $10,528,000 were in arrears. Therefore, Consolidated Net Tangible Assets were $113,440,000 less than would have been required in order to pay the dividends and redemption arrearages at July 31, 1977.

The company's debt instruments also contain other restrictions on dividends and redemptions which at July 31, 1977 were not as restrictive.

Stockholders' Equity continued

Changes in the shares of the company's capital stock
Year ended July 31, 1977 and 1976

	Common		Preferred	
	Issued	Treasury	Employees'	Other
Balance at July 31, 1975	12,968,751	482,165	1,353,103	765,350
Redemptions	—0—	—0—	—0—	(998)
Issuances	—0—	—0—	—0—	50
Conversion of securities	13,825	—0—	(13,825)	—0—
Balance at July 31, 1976	12,982,576	482,165	1,339,278	764,402
Redemptions	—0—	—0—	—0—	(998)
Return of escrowed shares	—0—	1,525	—0—	—0—
Conversion of securities	47,569	—0—	(47,552)	(13)
	13,030,145	483,690	1,291,726	763,391
Less treasury stock	483,690		301,677	1,860
Outstanding at July 31, 1977	12,546,455	483,690	990,049	761,531

Income Taxes

As a result of fiscal 1977 operating losses and the decision of the Board of Directors to divest certain operations, net operating loss carryforward benefits of $41,645,000 previously recognized as assets on the consolidated balance sheet, including $5,945,000 relating to nonconsolidated subsidiaries carried in the investment account, were written off.

Income tax expense is composed of the following:

	1977	1976
U. S. federal future tax benefits:		
Written off	**$41,645,000**	$ —0—
Utilized	**—0—**	15,663,000
Current taxes:		
Canadian	**3,416,000**	4,304,000
State	**226,000**	543,000
Totals	**$45,287,000**	$20,510,000

The company has net operating loss carryforwards based on income tax returns available to offset future taxable income as follows:

Expiration Date	Amount
July 31, 1978	$ 710,000
July 31, 1979	35,054,000
July 31, 1980	43,743,000
July 31, 1984	24,100,000
Total	$103,607,000

In addition, the company has recorded for financial statement purposes expenses amounting to $105,142,000 which will be deductible for federal income tax purposes in future years. These include depreciation, sale and leaseback transactions, profits on installment sales, deductions related to accounts receivable as well as provisions made for divestments and retail store closings.

The company's tax returns through fiscal year 1972 have been examined by the internal revenue service and all differences settled. Tax returns for fiscal 1973 and 1974 are currently being examined.

Retirement Plans

Pension expense relating to continuing operations amounted to $4,922,000 in 1977 and $4,221,000 in 1976, including amortization of prior service cost over 30 years. Actuarially computed vested benefits exceeded the total pension fund and balance sheet accruals by $14,408,000 at July 31, 1977 and the unfunded prior service cost was $29,192,000.

Rentals and Lease Commitments

For purposes of the following disclosure, a distinction has been made between non-capitalized "financing" leases and "other" leases. A "financing" lease is a lease with a term covering 75% or more of the estimated useful life of the property or with lease payments sufficient for the lessor to recover its investment plus interest.

Rental expense for the two years ended July 31 was as follows:

	1977	1976
Ongoing operations:		
Financing leases:		
Minimum rentals	**$ 7,591,000**	$ 8,128,000
Contingent rentals	**484,000**	495,000
Sublease rentals	**(19,000)**	(156,000)
Total financing leases	**8,056,000**	8,467,000
Other leases:		
Minimum rentals	**24,407,000**	25,159,000
Contingent rentals	**3,140,000**	2,513,000
Sublease rentals	**(3,000)**	(54,000)
Total other leases	**27,544,000**	27,618,000
Total ongoing operations	**35,600,000**	36,085,000
Operations to be divested or discontinued	**11,399,000**	11,927,000
Totals	**$46,999,000**	$48,012,000

Minimum rental commitments payable in future periods under noncancellable long-term leases (reduced by sublease rentals) are as follows:

Fiscal Year	Financing Leases	Other Leases	Total
Ongoing operations:			
1978	$ 7,251,000	$ 22,282,000	$ 29,533,000
1979	7,184,000	20,880,000	28,064,000
1980	6,970,000	16,625,000	23,595,000
1981	6,620,000	12,651,000	19,271,000
1982	6,503,000	10,757,000	17,260,000
1983-1987	30,059,000	40,457,000	70,516,000
1988-1992	14,990,000	21,950,000	36,940,000
1993-1997	1,104,000	9,158,000	10,262,000
After 1997	1,612,000	2,339,000	3,951,000
Total ongoing operations	82,293,000	157,099,000	239,392,000
Operations to be divested or discontinued	24,135,000	27,003,000	51,138,000
Totals	$106,428,000	$184,102,000	$290,530,000

In addition to minimum rentals, some leases provide for the company to pay real estate taxes and other expenses and, in certain cases, additional rentals based on sales. Renewal options exist for most long-term leases.

Rentals and Lease Commitments continued

The present values of minimum lease commitments under noncapitalized financing leases at July 31 are as follows:

	1977	1976
Ongoing operations:		
Retail real property	**$57,172,000**	$64,257,000
Wholesale & manufacturing real property	**2,972,000**	3,179,000
Other property	**966,000**	1,266,000
Total present value of minimum lease commitments	**61,110,000**	68,702,000
Present value of sublease rentals	**(1,477,000)**	(2,388,000)
Total ongoing operations	**59,633,000**	66,314,000
Operations to be divested or discontinued	**17,519,000**	18,945,000
Totals	**$77,152,000**	$85,259,000

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-8.5%	5.2%
Wholesale & manufacturing real property	1.2-6.5%	4.8%
Other	5.0-5.5%	5.2%
Present value of sublease rentals	2.0-6.5%	5.5%

If such financing leases were capitalized the effect on net earnings would be less than 1%.

Employee Stock Plans

The stockholders of the company have approved four stock purchase or option plans enabling employees to purchase shares of common or employees' preferred stock. These are the Savings Fund-Employee Stock Purchase Plan, the Key Executives Stock Option Plan and Employees Incentive Plans A and B.

Employees have been granted options to purchase shares of common stock under the Savings Fund-Employee Stock Purchase Plan at a price to be determined on August 31, 1978, subject to a minimum price of $10.01 determined at date of grant. Options to purchase 57,924 shares of common stock were outstanding on July 31, 1977 and expire August 31, 1978. 1,101,581 additional shares are available for future options.

The company has 750,000 shares of common stock authorized to be sold upon exercise of nonqualified stock options granted to key executive employees under the Key Executive Stock Option Plan. Options may not be granted at a price less than market value on the date of grant. Options granted under this plan become exercisable at the rate of 25% per year beginning one year from date of grant and expire 10 years from date of grant. At July 31, 1977, options granted in December 1975 and 1976 to purchase 229,500 shares and 12,500 shares at $5.125 and $5.625 per share, respectively, were outstanding.

Under Employee Incentive Stock Plan A, payments on stock purchase accounts are made by payroll deductions and, upon resumption of the common stock dividend, will also be made by the company through compensatory payments. Payments under Employee Incentive Stock Plan B are similar except employees make only limited payments and then only in specified circumstances. Employee incentive stock purchase accounts amounted to $19,396,000 at July 31, 1977 and $20,181,000 at July 31, 1976. Such accounts were secured by 955,944 employees' preferred shares and 43,102 common shares at July 31, 1977. No further sales of shares under plans A and B are contemplated.

Pending Legal Proceedings

The company believes the ultimate disposition of the following actions will not have a material effect on its financial position:

The company and certain other retailers are defendants in several actions brought on behalf of various charge account customers of the defendants. These actions allege that defendants fixed retail prices of women's clothing in various local markets. In October 1976 the United States District Court for the Southern District of New York approved as fair a proposed Stipulation of Settlement with respect to certain of the above actions. The settlement provides that defendants establish a credit fund for covered charge account customers and pay court approved expenses. The cost of the settlement to the company was $1.1 million, provision for which was made in the company's 1976 financial statements. The remaining actions are in various preliminary stages.

The company, certain officers and directors and its former independent certified public accountants are defendants in a class action charging defendants with publishing false and misleading financial statements and reports and, as a result, inflating the price of the company's common stock. The complaint seeks damages in an unspecified amount. The Court has limited the class to common stockholders who purchased their stock between August 21, 1972 and August 27, 1973 and who held such stock as of the latter date.

The company, GFC and E. B. Holt (Treasurer of the company and President of GFC) and certain former employees of the company are defendants in an action against them, Leeds Shoes, Inc., a customer of the company, and others. The suit claims violations of the Federal Securities Laws by Leeds and claims the company and GFC were "controlling persons" of Leeds and are liable for its actions. The defendants have denied the material allegations of the complaint and specifically deny they are or were "controlling persons" of Leeds.

The company is the defendant in a recent action brought by the former owners of a corporation acquired by the company in 1968. The complaint alleges violations of the Federal Securities Laws and seeks recision of an exchange of stock between plaintiffs and the company and damages of approximately $10 million.

The company and certain directors are defendants in several actions brought on behalf of owners of Series B and Series C preference stock. The suits allege that the company improperly suspended the right to exchange such stock for 6½% convertible subordinated debentures and the indenture provisions permitting such suspension were improperly included in the indenture. The complaints seek damages or an injunction requiring the company to reinstate the exchange privilege and a declaration that any restrictions on this privilege are null and void. The company is also a defendant in an action brought by certain holders of Series 2 preferred stock alleging that the company refused to make sinking fund deposits aggregating $5 million and will refuse to make a similar deposit of $2.5 million on January 1, 1978. The complaint seeks an order requiring such deposits be made and directing the company to pay accrued and unpaid dividends and to redeem a portion of such stock in an amount of at least $5 million. The company believes it has meritorious defenses to such actions. If the company were required by the Court to either (i) reinstate the exchange privilege relating to the Series B and Series C preference stock, or (ii) make sinking fund deposits, redemptions or dividend payments with respect to the Series 2 preferred stock, lenders under certain of the company's debt instruments might assert that such action constituted an event of default which, in turn, might, under certain circumstances, result in acceleration of the maturity of substantially all of the company's outstanding indebtedness.

The company has also been named as defendant in various other actions. The company believes the outcome of these matters will not have a material effect on its financial position.

Quarterly Results (Unaudited)

Unaudited quarterly results, restated to give effect to the resumption of accounting for Kress as a continuing operation and the company's decision to divest certain operations, are as follows (in thousands except amounts per share):

	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1977	$259,097	$276,093	$245,138	$ 234,459	$1,014,787
1976	264,563	286,760	257,782	252,285	1,061,390
Operating income (loss): Ongoing operations					
1977	6,170	3,586	(358)	(4,252)	5,146
1976	9,547	13,299	11,817	6,775	41,438
Operations to be divested					
1977	62	(2,151)	(2,042)	(2,832)	(6,963)
1976	1,859	298	(370)	(1,974)	(187)
Provision for divestments and retail store closings					
1977	—0—	—0—	—0—	(33,224)	(33,224)
1976	—0—	—0—	—0—	—0—	—0—
Pretax earnings (loss)					
1977	6,232	1,435	(2,400)	(40,308)	(35,041)
1976	11,406	13,597	11,447	4,801	41,251
Income taxes					
1977	3,115	718	9,752	31,702	45,287
1976	5,703	6,797	5,723	2,287	20,510
Nonconsolidated companies					
1977	18	140	(396)	(24)	(262)
1976	(447)	234	(803)	(170)	(1,186)
Discontinued operations					
1977	(920)	(2,262)	(577)	(51,434)	(55,193)
1976	459	(1,778)	(984)	(1,322)	(3,625)
Net earnings (loss)					
1977	$ 2,215	$ (1,405)	$ (13,125)	$(123,468)	$ (135,783)
1976	5,715	5,256	3,937	1,022	15,930
Primary earnings (loss) per share: Before discontinued operations					
1977	$.18	$ .00	$(1.07)	$(5.82)	$ (6.71)
1976	.35	.49	.33	.11	1.28
Net earnings (loss)					
1977	.11	(.18)	(1.11)	(9.94)	(11.12)
1976	.39	.35	.24	.02	1.00

Current Replacement Cost Information (Unaudited)

In compliance with rules of the Securities and Exchange Commission, the company has estimated certain replacement cost information for inventories and productive capacity (generally plant, equipment and capitalized lease rights excluding land and construction in process) as of July 31, 1977 and the approximate effect which such estimated replacement cost would have had on the computation of cost of sales and depreciation expense for the fiscal year then ended. However, the company has not estimated replacement cost information on certain divisions (mainly women's and children's clothing) which will be divested.

Notes to Consolidated Financial Statements and Securities Information

The company believes that year-end inventories represent replacement cost; however, the replacement cost of sales and cost of productive capacity and related depreciation was determined to be higher than the related historical costs presented in the accompanying financial statements. The amounts determined were compiled based on assumptions and estimates that have certain limitations due to the subjective nature of the estimating process. Since the methods used to determine replacement cost do have limitations and are experimental, it is important that these data be viewed with a certain degree of caution and not as being indicative of future financial results of the company.

The company's annual report to the Securities and Exchange Commission on Form 10-K will contain replacement cost data, as determined by management, in more detail. Form 10-K will be available November 15, 1977 to stockholders requesting one.

Securities Information — Common Stock

The company's common stock is listed on the New York Stock Exchange with the symbol GCO. No dividend has been paid on common stock during the past four fiscal years. The following table lists the high and low sales price of Genesco common stock during each quarter of fiscal 1977 and 1976.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1977	6⅞	5	5⅞	4⅞	6¾	4½	6½	4
1976	5⅜	3¾	7½	4¾	9	7	7⅞	6⅛

Securities Information — Preferred Stock

All classes of the company's preferred stock are traded in the over-the-counter market. All preferred dividends are ten quarters in arrears except the $4.50 Cumulative Convertible Preferred which is three quarters in arrears. The following table shows the average bid and asked prices for each quarter of fiscal 1977 and 1976 on those classes of preferred which were traded. All remaining classes were virtually untraded and no meaningful price information could be obtained.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
Preference Series B								
1977	32	—	35¼	42	38½	—	NQ	—
1976	18	—	21½	—	NQ	NQ	30½	—
Preference Series C								
1977	33	38	35¾	42	38½	—	NQ	NQ
1976	20	24	22	26	22	—	31	33
Preferred Series 1								
1977	12	15	15½	18	18½	20½	NQ	NQ
1976	8	10	7¼	9¼	8½	11	10½	13
Preferred Series 2								
1977	10	—	13	—	13½	—	12½	—
1976	14	—	13	—	12	—	12	—

Information for this chart furnished by the National Quotation Bureau.

Fiscal year ended July 31	1977	1976	1975	1974	1973
Net sales	**$1,014,787**	1,061,390	1,014,798	1,056,772	1,086,636
Cost of sales	**$ 693,085**	686,394	679,080	701,291	727,644
Gross margin	**$ 321,702**	374,996	335,718	355,481	358,992
Selling, general and administrative expenses	**$ 304,500**	316,132	306,817	304,055	320,489
Interest expense	**$ 18,646**	17,787	24,951	22,351	15,199
Other income (loss)	**$ (373)**	174	1,729	1,322	1,009
Operating income (loss):					
Ongoing operations	**$ 5,146**	41,438	8,955	30,637	27,514
Operations to be divested	**$ (6,963)**	(187)	(3,276)	(240)	(3,201)
Provision for divestments and retail store closings	**$ (33,224)**	—0—	—0—	—0—	—0—
Income taxes	**$ 45,287**	20,510	3,804	14,096	11,214
Minority interests	**$ —0—**	—0—	—0—	204	337
Nonconsolidated companies	**$ (262)**	(1,186)	(6,943)	(2,017)	(1,457)
Earnings (loss) before discontinued operations	**$ (80,590)**	19,555	(5,068)	14,080	11,305
Earnings (loss) from discontinued operations	**$ (55,193)**	(3,625)	(9,359)	3,379	(7,771)
Earnings (loss) before extraordinary losses	**$ (135,783)**	15,930	(14,427)	17,459	3,534
Extraordinary losses	**$ —0—**	—0—	—0—	—0—	(55,623)
Net earnings (loss)	**$ (135,783)**	15,930	(14,427)	17,459	(52,089)
(Primary earnings (loss) per common share:					
Before discontinued operations	**$ (6.71)**	1.28	(.68)	.83	.59
Net earnings (loss)	**$ (11.12)**	1.00	(1.42)	1.09	(4.47)

Figures for 1973-1976 have been restated, where appropriate, for accounting principles changes, discontinued operations and the resumption of accounting for Kress as a continuing operation. All figures are in thousands except amounts per share.

Management's Discussion and Analysis of Operating Results

Net Sales
The reduction in sales for fiscal 1977 compared to fiscal 1976 was due to a decline in consumer spending caused in part by (i) the $10 to $15 billion shortfall in government spending as a result of the change in the federal government's fiscal year and (ii) the severe weather in January 1977. Approximately $23 million of the decline in fiscal 1977 was due to the divestment, in the last quarter of fiscal 1976, of two women's footwear retailing operations. The sales increase in fiscal 1976 compared to fiscal 1975 reflects the improved economic climate in fiscal 1976.

Gross Margin
The reduction in gross margin in fiscal 1977 compared to fiscal 1976 results principally from (i) mark-downs of finished goods inventory in excess of normal levels due to reduced sales volume and (ii) underabsorption of overhead due to reduced levels of production. Gross margin for the year was also reduced by a rollback of earnings by the Canadian Anti-inflation Board and by a provision of approximately $2.7 million to cover potential losses from the government ordered recall of children's sleepwear treated with Tris. Devaluation of the Canadian dollar reduced gross margin by approximately $3.2 million compared to last year.

The increase in gross margin in fiscal 1976 is attributable to the disposition of excess productive capacity, increased levels of production in remaining plants and more effective merchandising in retail operations.

Selling and Administrative Expenses
The decrease in expenses in fiscal 1977 compared to fiscal 1976 is due principally to the reduction in wholesale sales and the divestment, during the fourth quarter of fiscal 1976, of two women's retailing operations. The increase in fiscal 1976 reflects increased wholesale selling expenses due to improved sales.

Interest
The increase in interest expense for fiscal 1977 compared to fiscal 1976 is principally due to higher interest rates on borrowings of long-term debt by Genesco and Genesco Financial Corporation which replaced existing indebtedness. Interest on short-term debt in fiscal 1977 was less than in fiscal 1976 due to 18% and 8% reductions in average short-term debt and average interest rates, respectively. Interest expense also decreased in fiscal 1976 compared with fiscal 1975 as a result of a 25% decline in average short-term debt, as well as a 29% decrease in average interest rates.

Income Taxes
The fiscal 1977 tax provision consists of a write-off of net operating loss carry-forward benefits of U.S. operations and a provision for taxes on Canadian earnings. U.S. operations experienced a loss in fiscal 1977 and no tax benefit was recorded. The fiscal 1976 tax provision represents the utilization of future tax benefits by U.S. operations as well as a provision for taxes on Canadian earnings. In fiscal 1975, U.S. operations were unprofitable and no tax benefit was recorded. The income tax provision in that year related principally to profitable Canadian operations. (See "Income Taxes" on page 20).

Nonconsolidated Companies
The reduction in losses of nonconsolidated companies in fiscal 1977 compared to fiscal 1976 is due to the retirement in 1976 of debt of a nonconsolidated subsidiary and to the liquidation of an unprofitable nonconsolidated subsidiary in fiscal 1976. Losses of nonconsolidated companies in fiscal 1976 were less than in fiscal 1975 principally as a result of the divestment or liquidation in 1975 of several European operations which, in the aggregate, were unprofitable.

Net Earnings
The net loss for fiscal 1977 consists principally of a profit of $5,146,000 relating to ongoing operations reduced by a loss of $18,820,000 from operations to be discontinued or divested, a provision of $76,560,000 for future costs of discontinuing or divesting these operations and certain retail stores, write-off of net operating loss carryforward benefits of $41,645,000 and Canadian and state income taxes and losses of nonconsolidated companies amounting to $3,904,000.

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Assistant Secretaries

Charles E. Bain
Willard Sledge

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Common Stock and Preferred Stock
Morgan Guaranty Trust Company
New York, New York 10004

First American National Bank
Nashville, Tennessee 37237

Registrars
Common Stock and Preferred Stock
Chemical Bank
New York, New York 10015

Third National Bank
Nashville, Tennessee 37244

Independent Accountants
Price Waterhouse & Co.
Nashville, Tennessee 37219

New York Stock Exchange Symbol
GCO

Form 10-K
Each year Genesco files with the Securities and Exchange Commission a Form 10-K report which contains more detailed information. If you would like to receive a copy, please send your request to Genesco Inc., Route K-41, Director-Consolidated Financial Reporting, P. O. Box 941, Nashville, Tennessee 37202

Genesco is an equal opportunity employer.

GENESCO

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